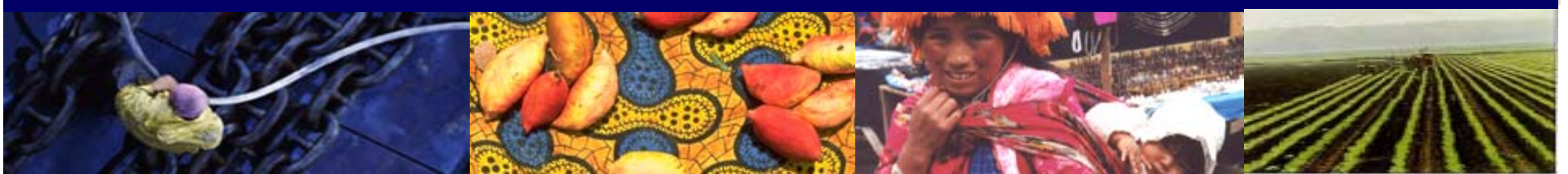


Workshop on Trade and Development



Trade and Development Implications for USAID

July 12, 2002



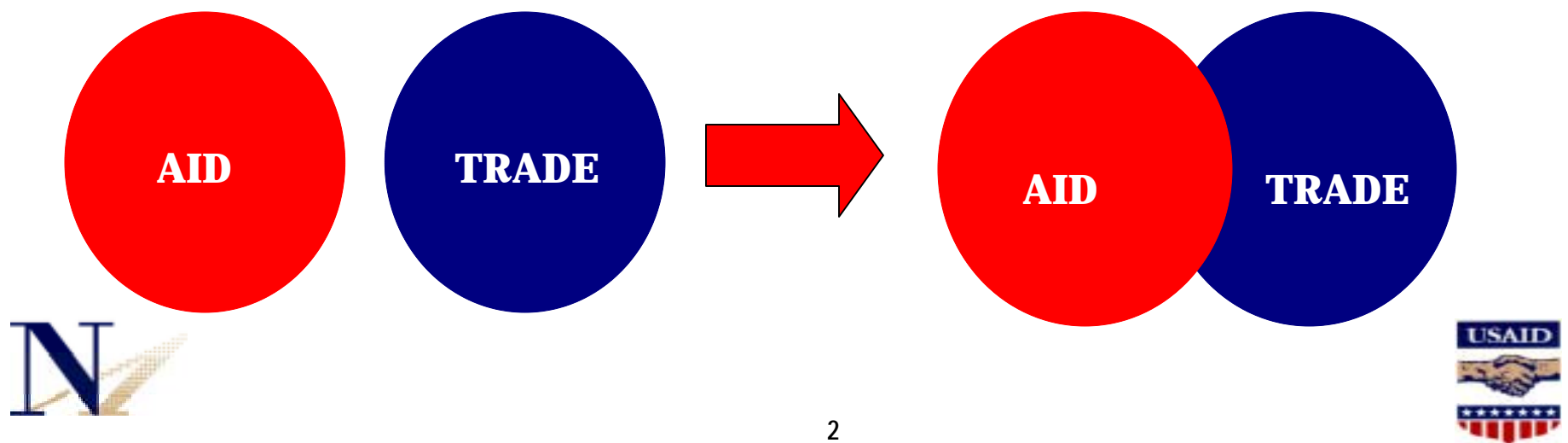
Agenda

- **The Convergence of Trade and Development** **Emmy Simmons**
- **Trade Trends and Development Issues** **Erin Endean**
- **The Comparative Advantage Game** **David Cowles**
- **The WTO and the Doha Development Agenda** **Geza Feketekuty**
- **Implications and Opportunities for USAID** **Steve Hadley**



Convergence of trade & development

- Trade and development policies are linked
- The two agendas have been pursued independently, but there are now compelling reasons for closer collaboration



Compelling reasons for closer collaboration

- Trade negotiations take on “development” focus at Doha (Nov. 2001)
- Development agenda recognizes importance of trade (March 2002)
- Trade and Development = High Visibility
- Trade Capacity Building = Key Link

“The vast majority of financing for development comes not from aid, but from trade and domestic capital and foreign investment.”

“When trade advances, there's no question but the fact that poverty retreats.”

-- President Bush, Monterrey Mexico, Financing for Development Conference
March 2002



Agenda

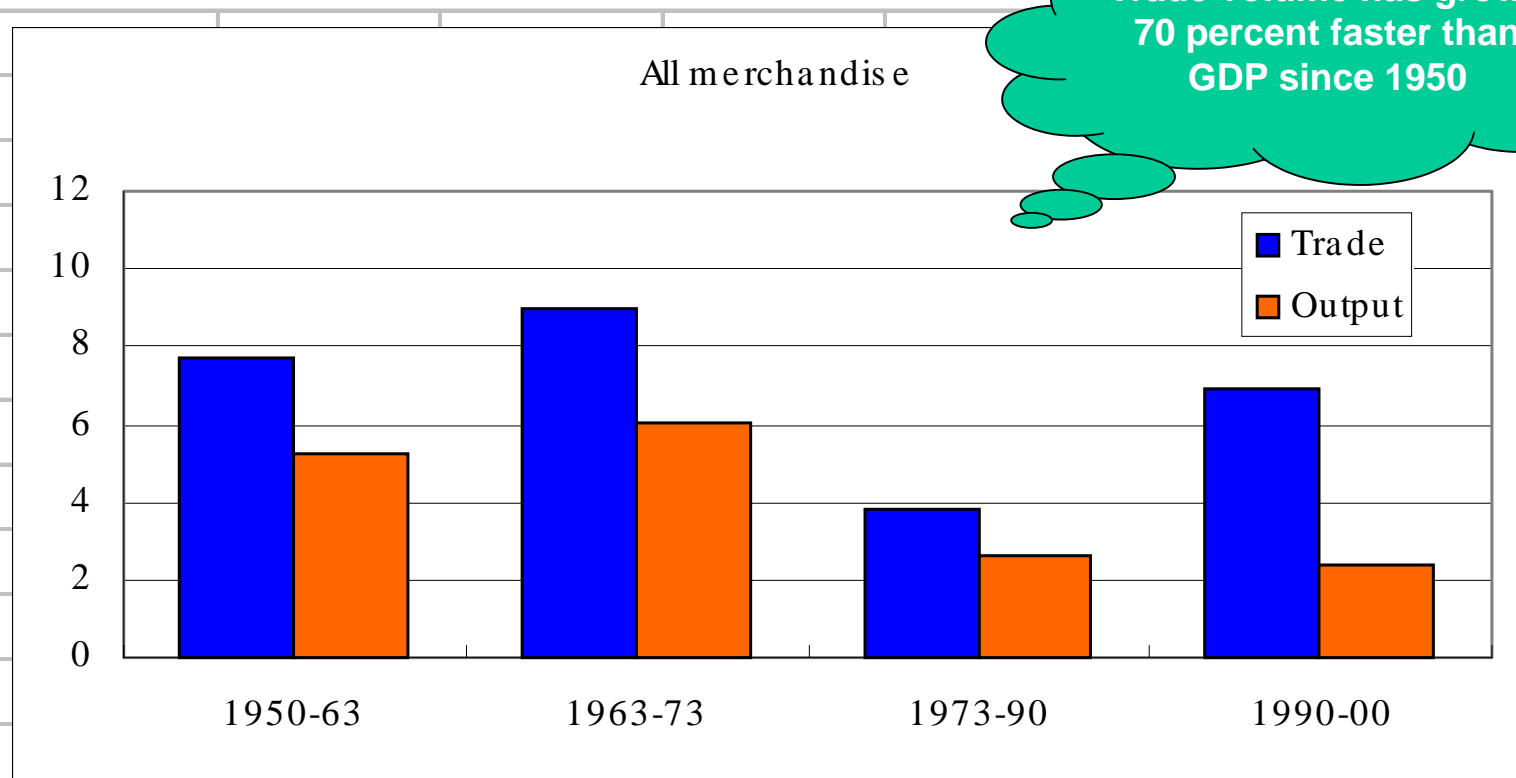
- The Convergence of Trade and Development
- **Trade Trends and Development Issues (Erin Endean)**
- The Comparative Advantage Game
- The WTO and the Doha Development Agenda
- Implications and Opportunities for USAID



Expanding trade has fueled global growth

World Merchandise Trade and Output, 1950-2000

Average Annual Percentage Change
in Volume Terms

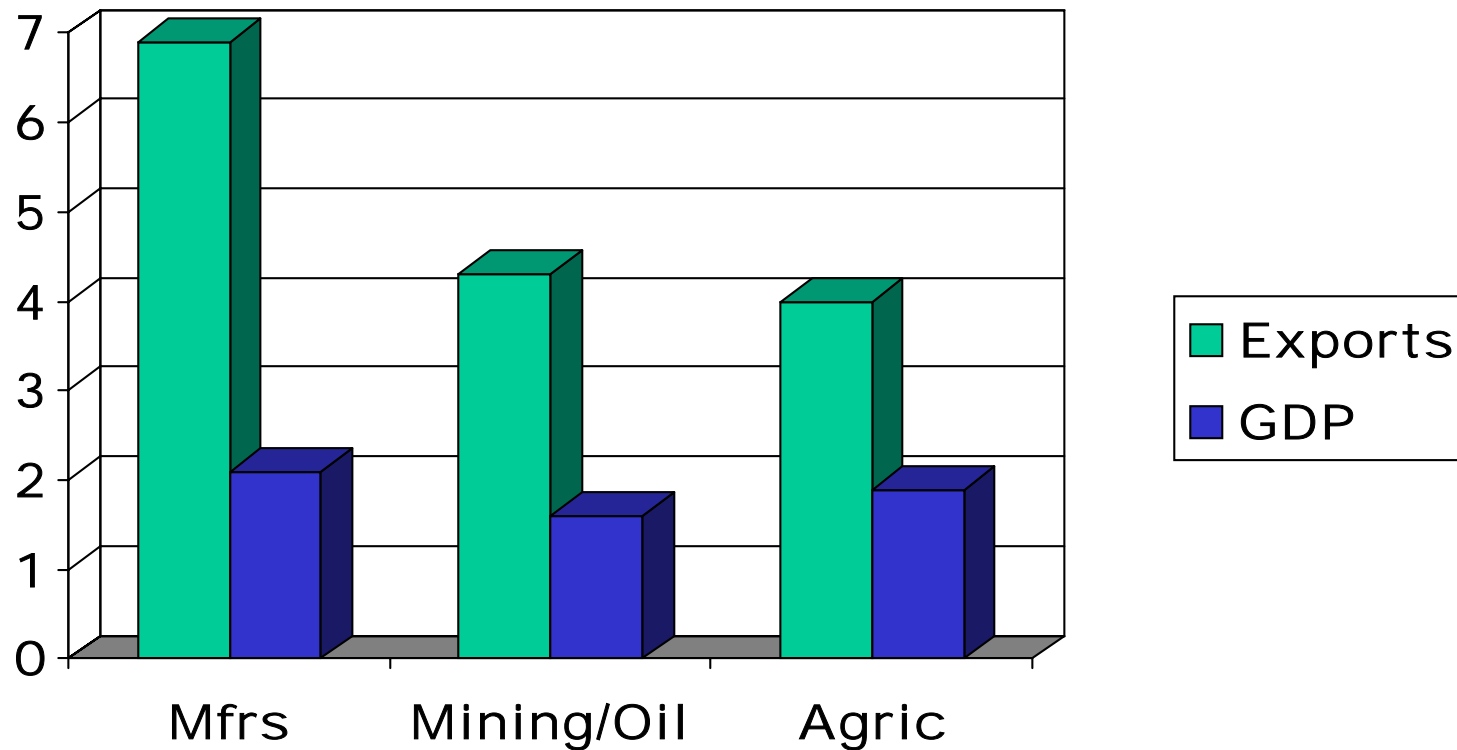


Source: WTO



Growth in manufactures exports leads the way

Average annual growth in volume, 1990-98 (%)

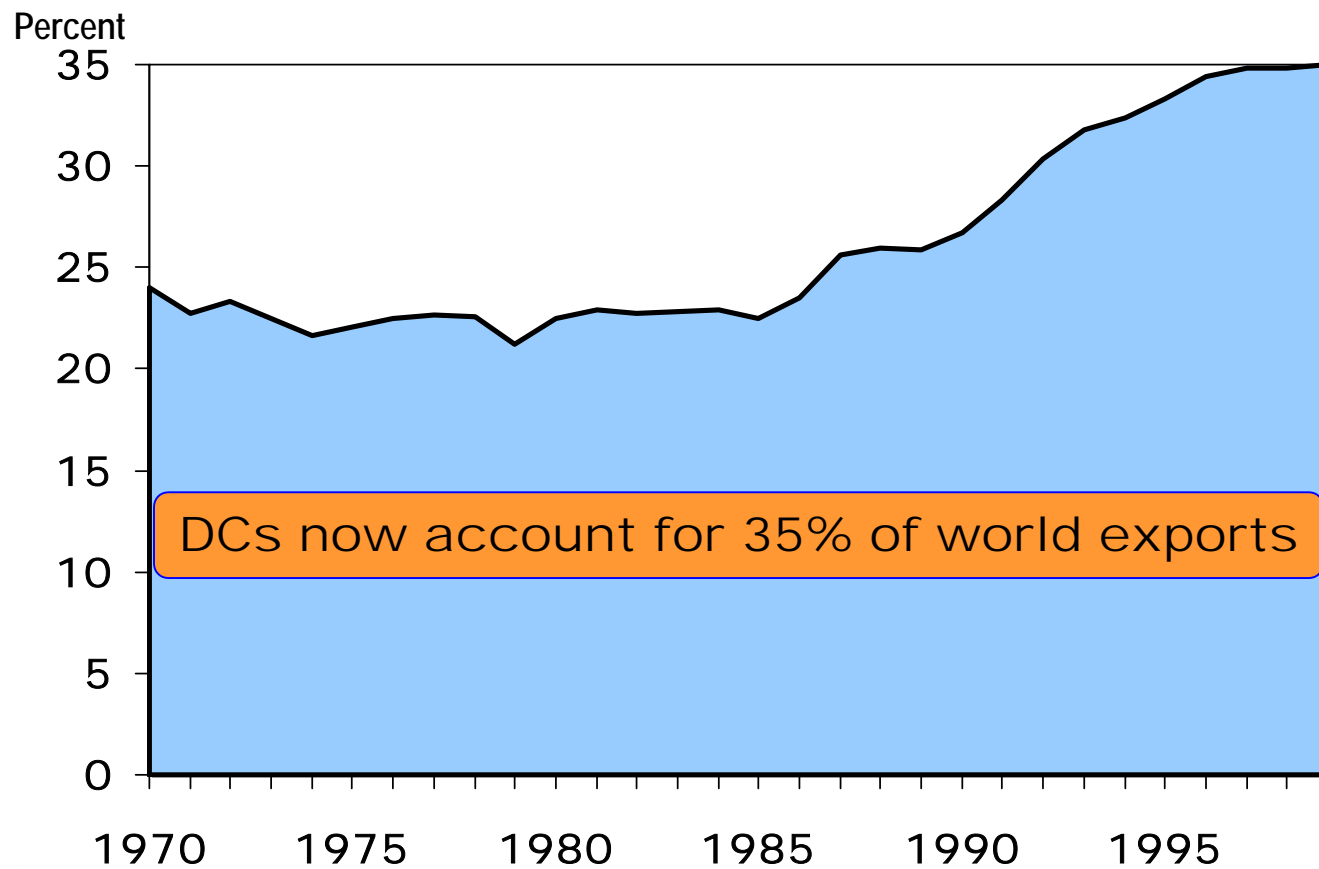


World Bank, GEP 2002



DCs a growing share of global trade

DC Share

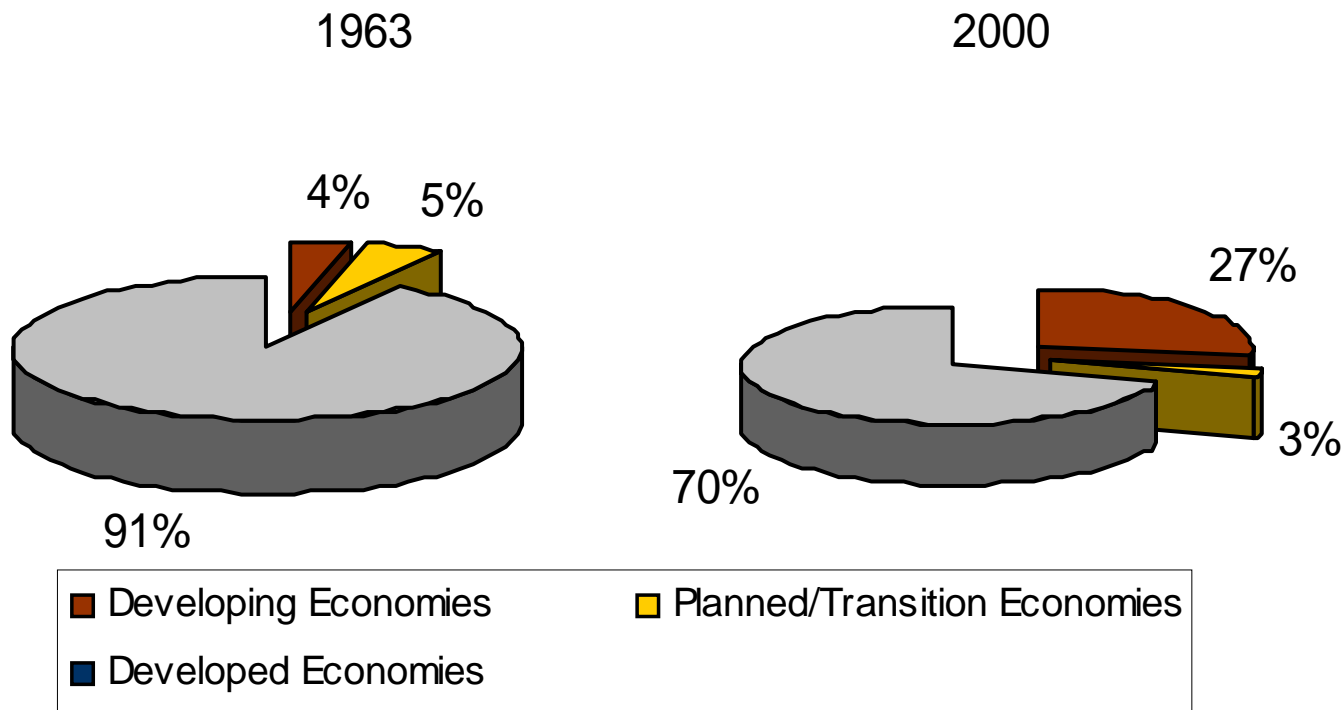


World Bank, GEP, 2002



DCs account for a growing share of manufactures exports

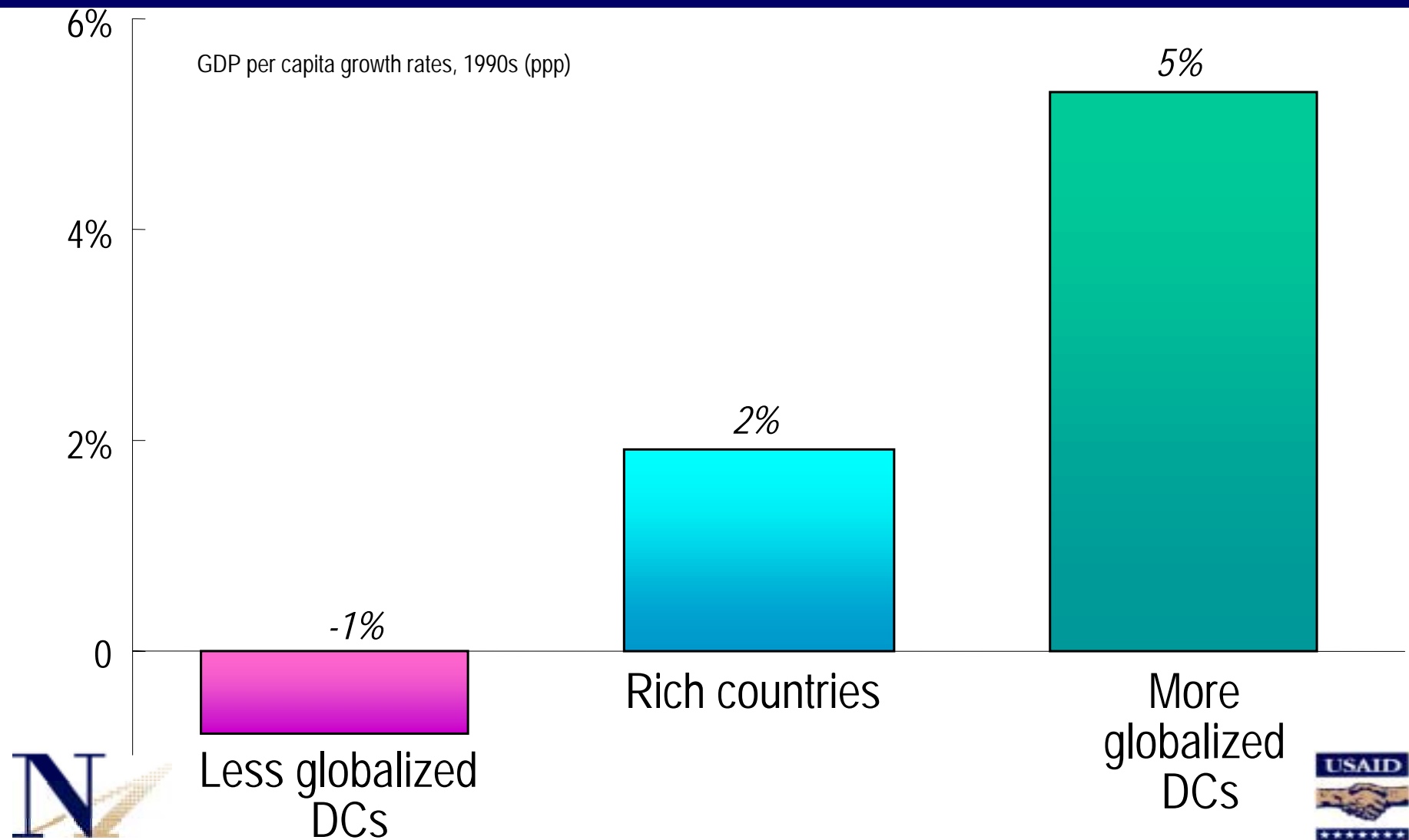
SHARE OF GLOBAL EXPORTS OF MANUFACTURES



Source: World Trade Organization



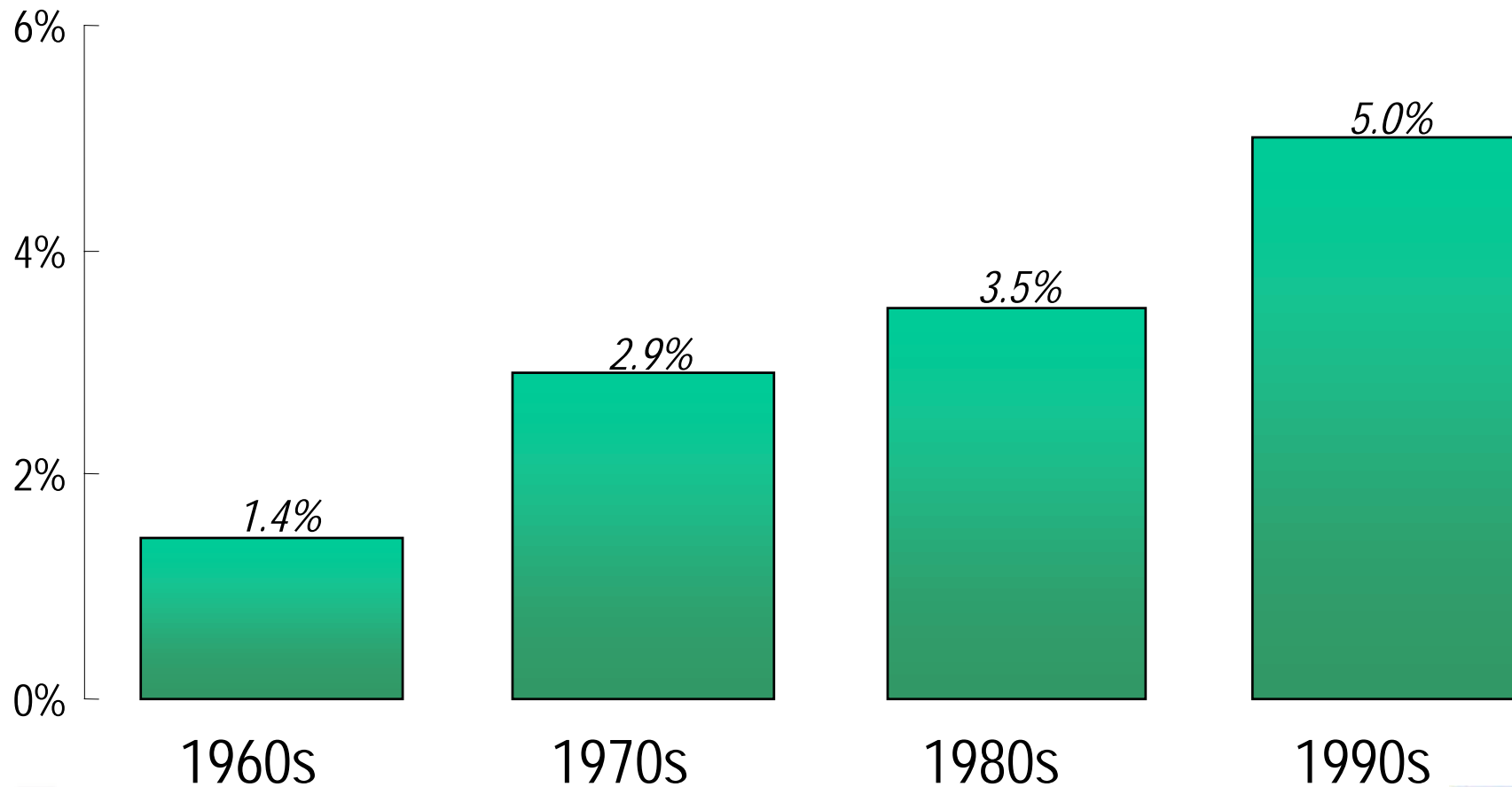
DCs—Globalization and growth in the 1990s



Source, World Bank, Globalization, Growth, and Poverty, 2002



Growth in globalizers has accelerated as integration has proceeded

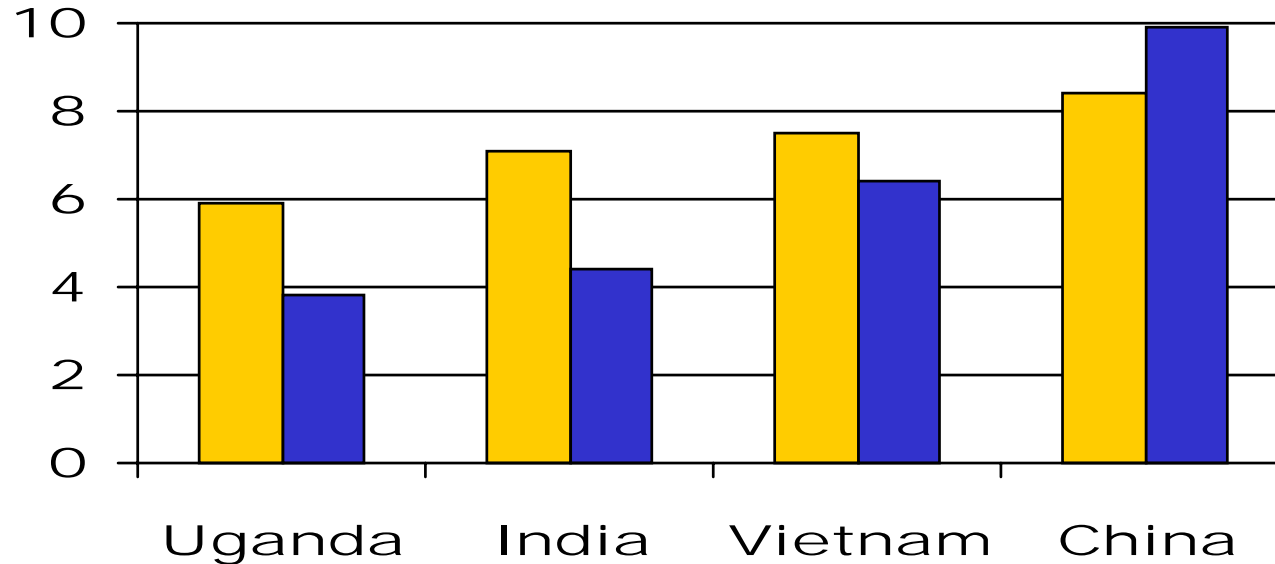


Source, World Bank, Globalization, Growth, and Poverty, 2002



Growth has helped reduce poverty

Average Annual Growth
Rate
1992-1998



■ Poverty reduction ■ Per capita GDP

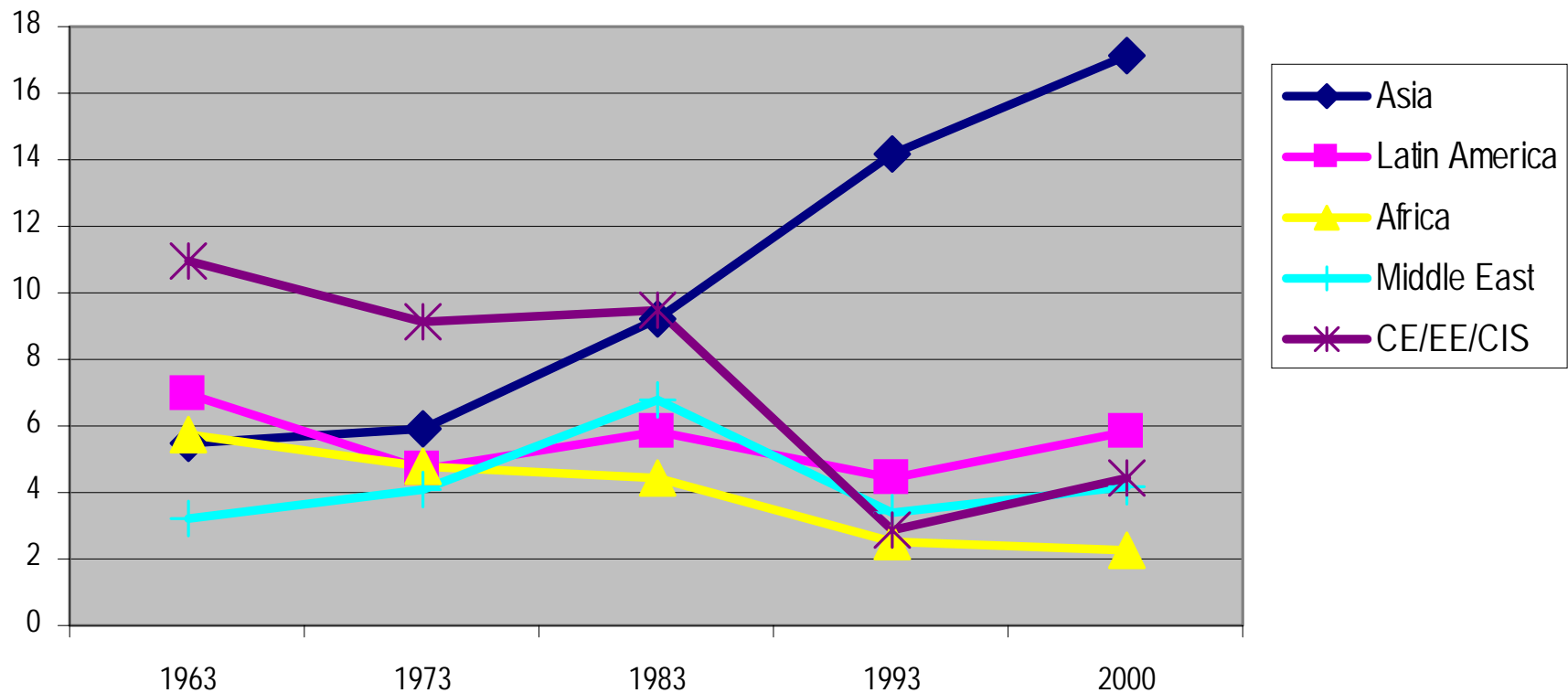


Source: World Bank, Globalization, Growth, and Poverty, 2002



Growth has been concentrated in Asia

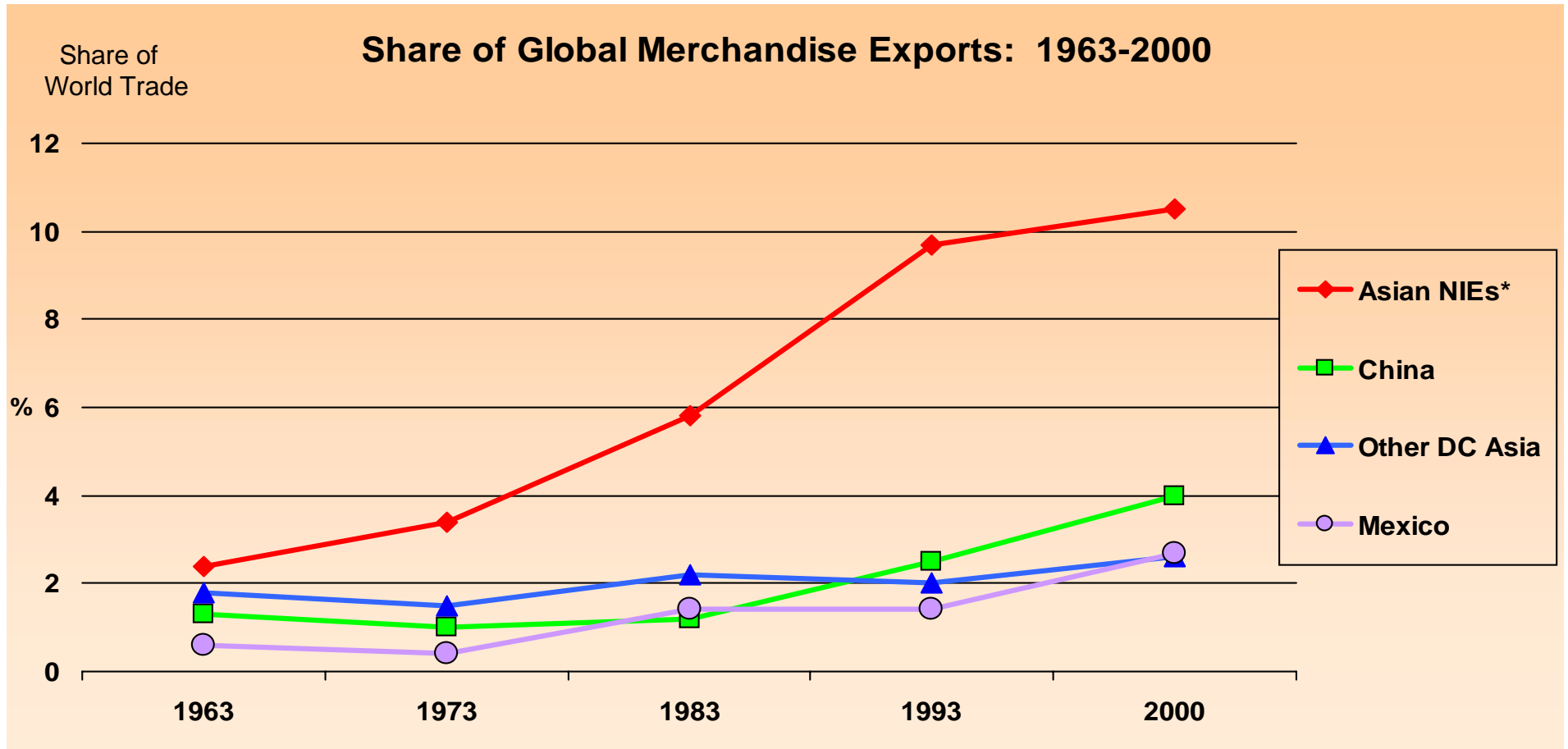
% Global Share of Merchandise Exports By DC Groups (1963 – 2000)



Source: WTO



Growth has been concentrated in Asia

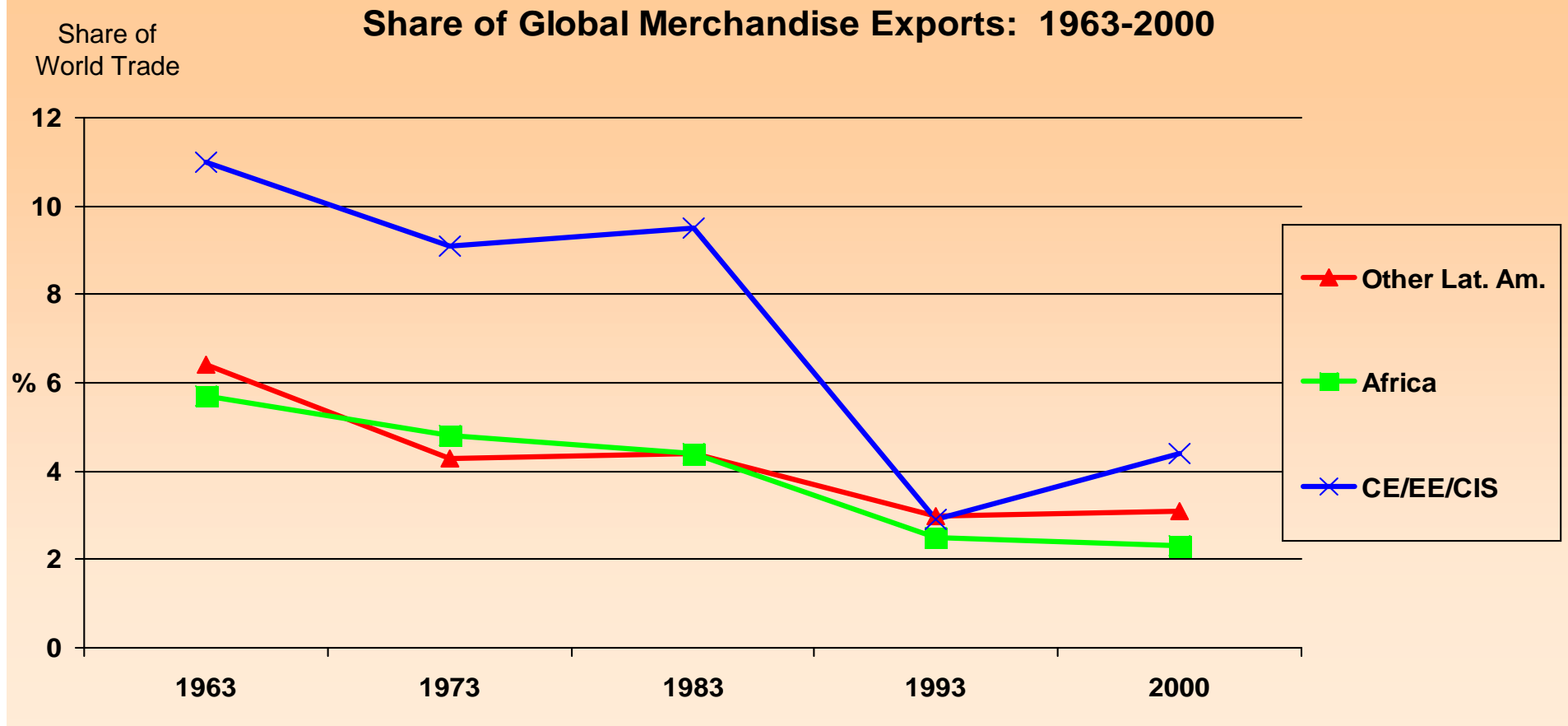


Source: WTO

*Hong Kong, Rep. Of Korea, Malaysia, Singapore, Chinese Taipei, Thailand



Losers—E&E, Africa, and other Latin America



Source: WTO



A few DCs predominate

TOP 10 DEVELOPING COUNTRY EXPORTERS – 2000

<u>Country</u>	<u>% of DC Exports</u>
• China	13
• Korea, RO	9
• Mexico	9
• Taipei, Chinese	8
• Malaysia	5
• Saudi Arabia	5
• Singapore	4
• Thailand	4
• Indonesia	3
• Brazil	3

Top 10 DCs account
for 64%
of DC exports

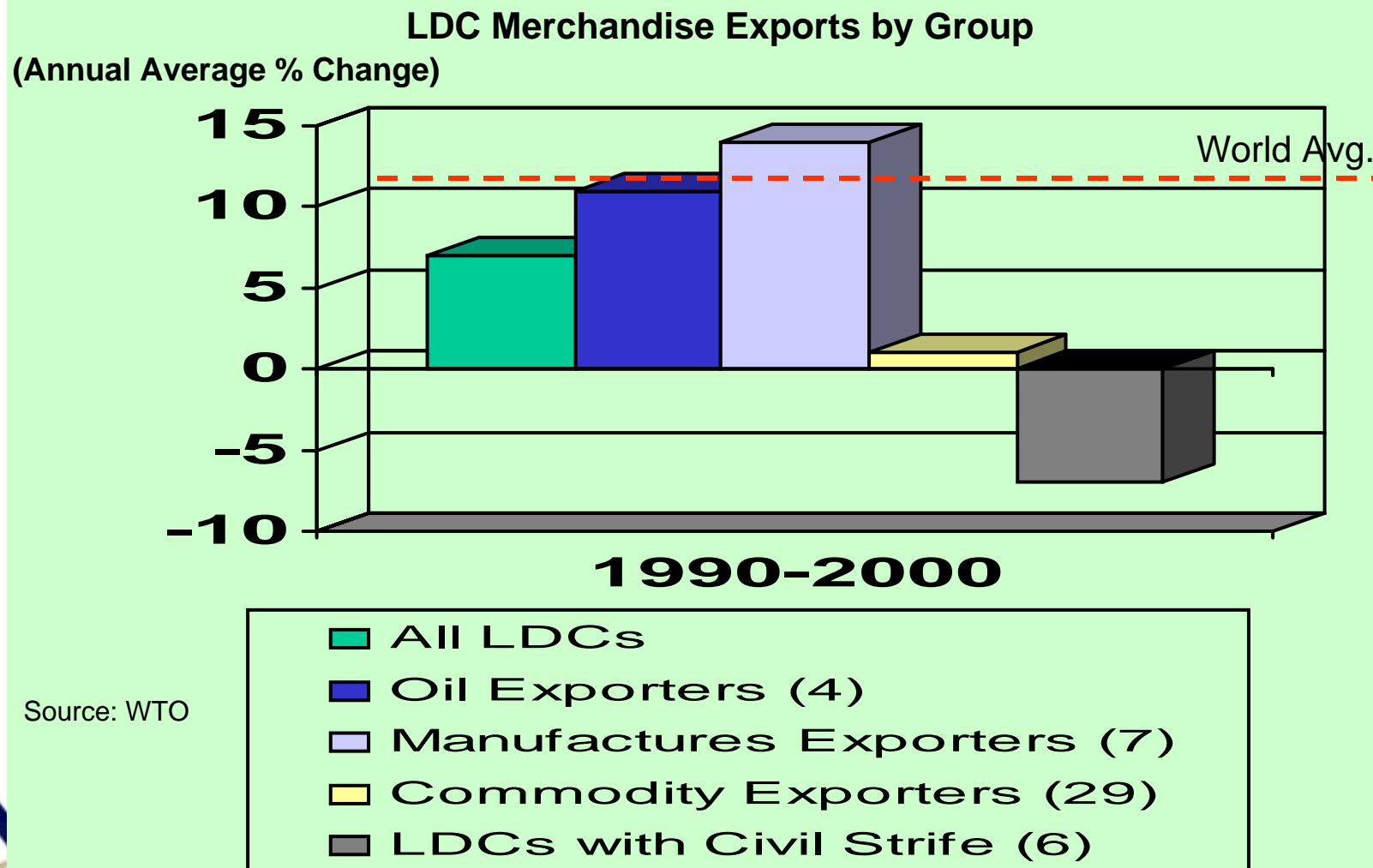
**LDCs ACCOUNT FOR LESS THAN 2% OF DC
TRADE (0.5% OF GLOBAL TRADE)**



Source: WTO

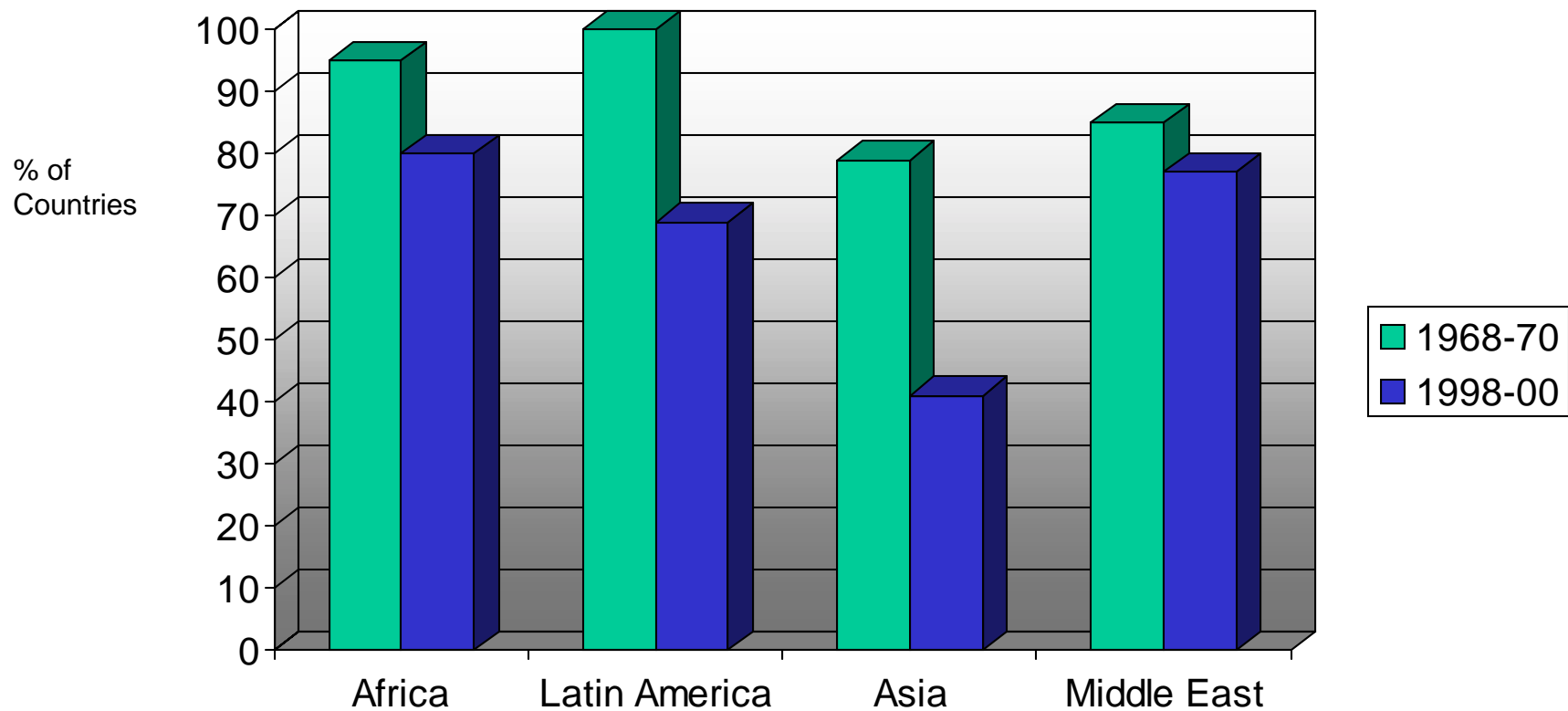


Among LDCs there are differences



Most DCs still rely on primary products exports

DCs Where Exports of Primary Products are 50% or More of Total Exports



Source: WTO



Many DCs are dependent on textile/apparel exports

Textiles and apparel account for a majority of merchandise export earnings in:

Bangladesh	84%
Pakistan	72%
Mauritius	69%
Sri Lanka	54%
Nepal	53%



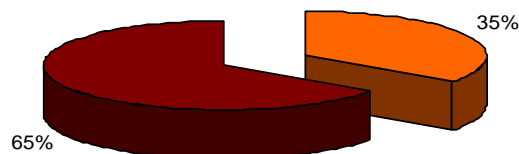
Source: WTO



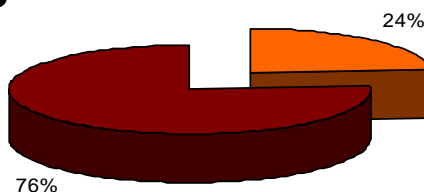
Trade and the Development Ladder

Mexico:

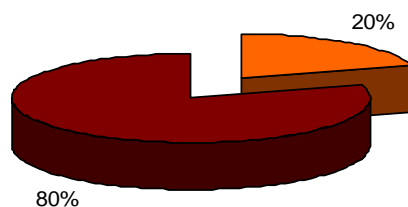
**Trade is a growing
share of GDP**



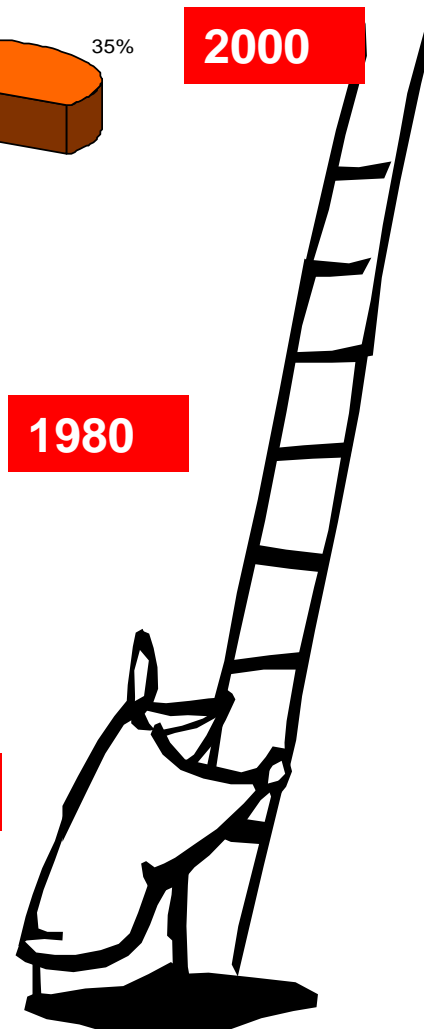
2000



1980



1960



GDP

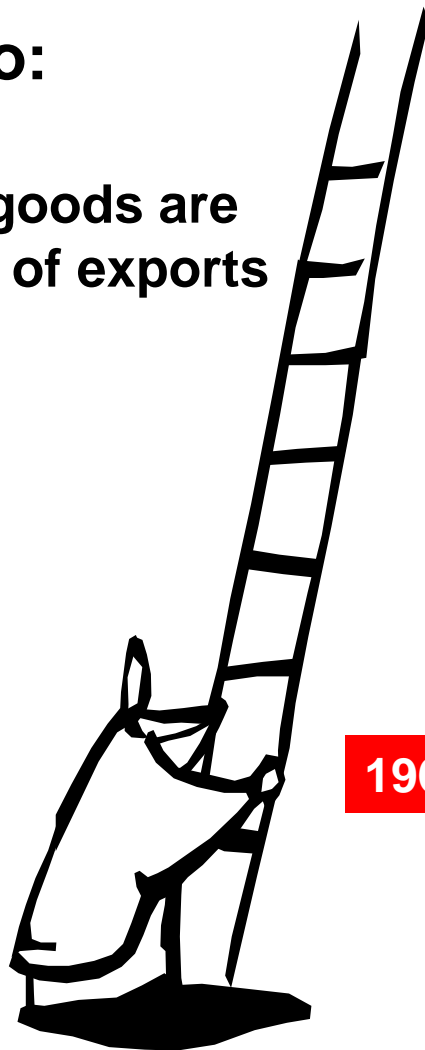
Trade



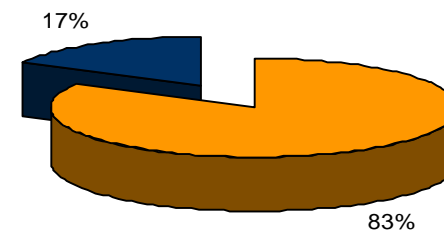
Trade and the Development Ladder

Mexico:

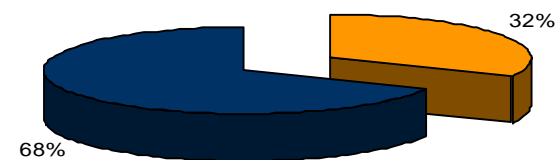
Manufactured goods are
a growing share of exports



2000



1980



1960

Data not available for 1960

Merchandise
Exports

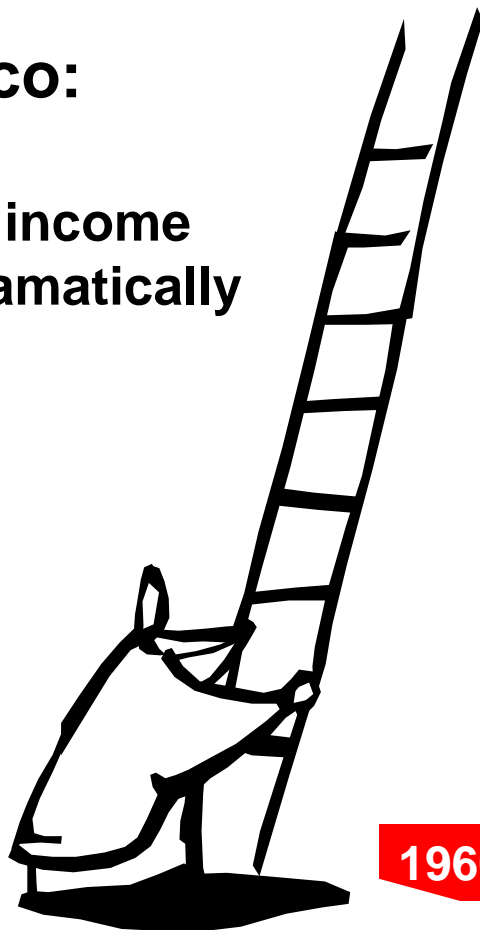
Manufactures



Trade and the Development Ladder

Mexico:

Per capita income
has risen dramatically



2000



PC Income* \$3,819

1980



PC Income* \$ 3,282

1960



PC Income* \$1,639

*Constant 1995 US \$

Source: World Bank, World Development Indicators

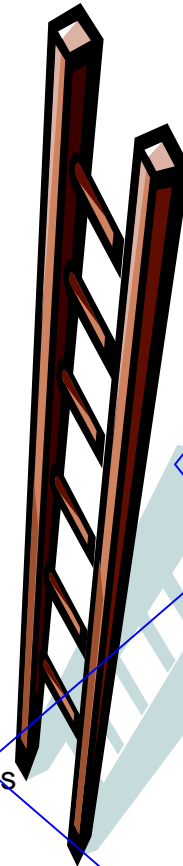


Trade and the Development Ladder

High Trade/GDP Share
High Manufactures Share of Exports
Growing “High-value-added” Exports
Increasing Trade in Services
Growing Product/Market Diversity

Growing Trade/GDP Share
Growing Manufactures Exports
Limited Product/Market Diversity

Low Trade/GDP Share
Resource/Commodity-Dependent Exports



Illustrative Examples

Korea, Taiwan, Singapore,
Hong Kong, Malaysia, Thailand,
Israel, China

MENA: Tunisia, Morocco, Jordan, Lebanon
LA: Mexico, Brazil, Costa Rica
Asia: India, Indonesia, Philippines,
Bangladesh, Pakistan, Nepal, Sri Lanka +
Most of Eastern Europe
SSA: Mauritius, Madagascar, Cape Verde

MENA: Most (except those listed above)
LA: Chile, Argentina, Ecuador, Suriname +
Asia: PNG, Samoa, Tonga, Vanuatu
SSA: Mali, Mauritania, Mozambique, Tanzania,
Uganda, Zambia, Angola +



DCs—Some key trade objectives

- Diversify export markets, products, services
- Increase value-added in country
- Boost domestic supply/services linkages



DCs—Some key trade issues

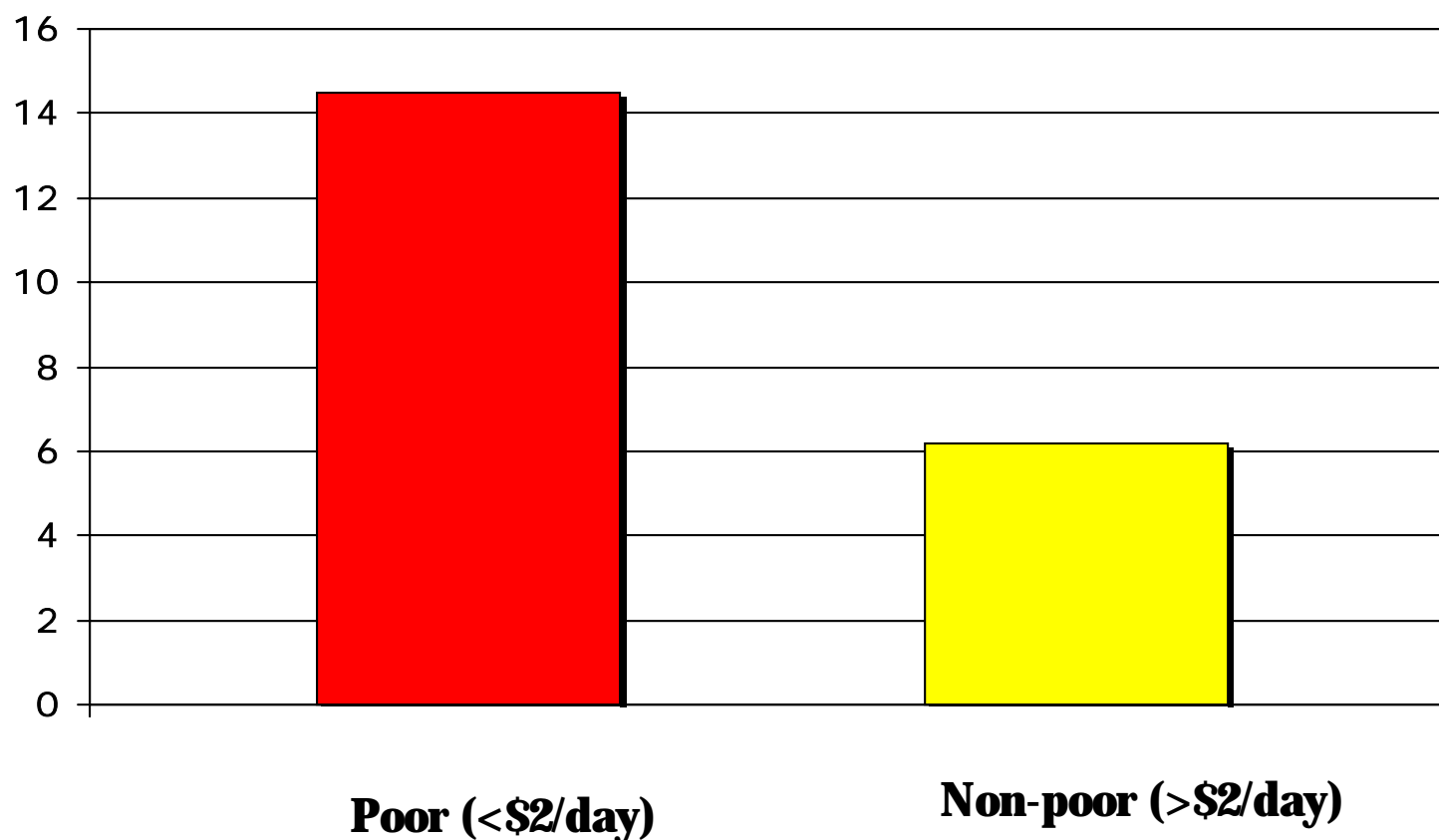
- Access to foreign markets
- “Supply response” to foreign demand



Market Access—Room for improvement

Average % Tariff Faced
by Each Group (1997-98)

Products Produced by the Poor Face Higher Tariff Barriers

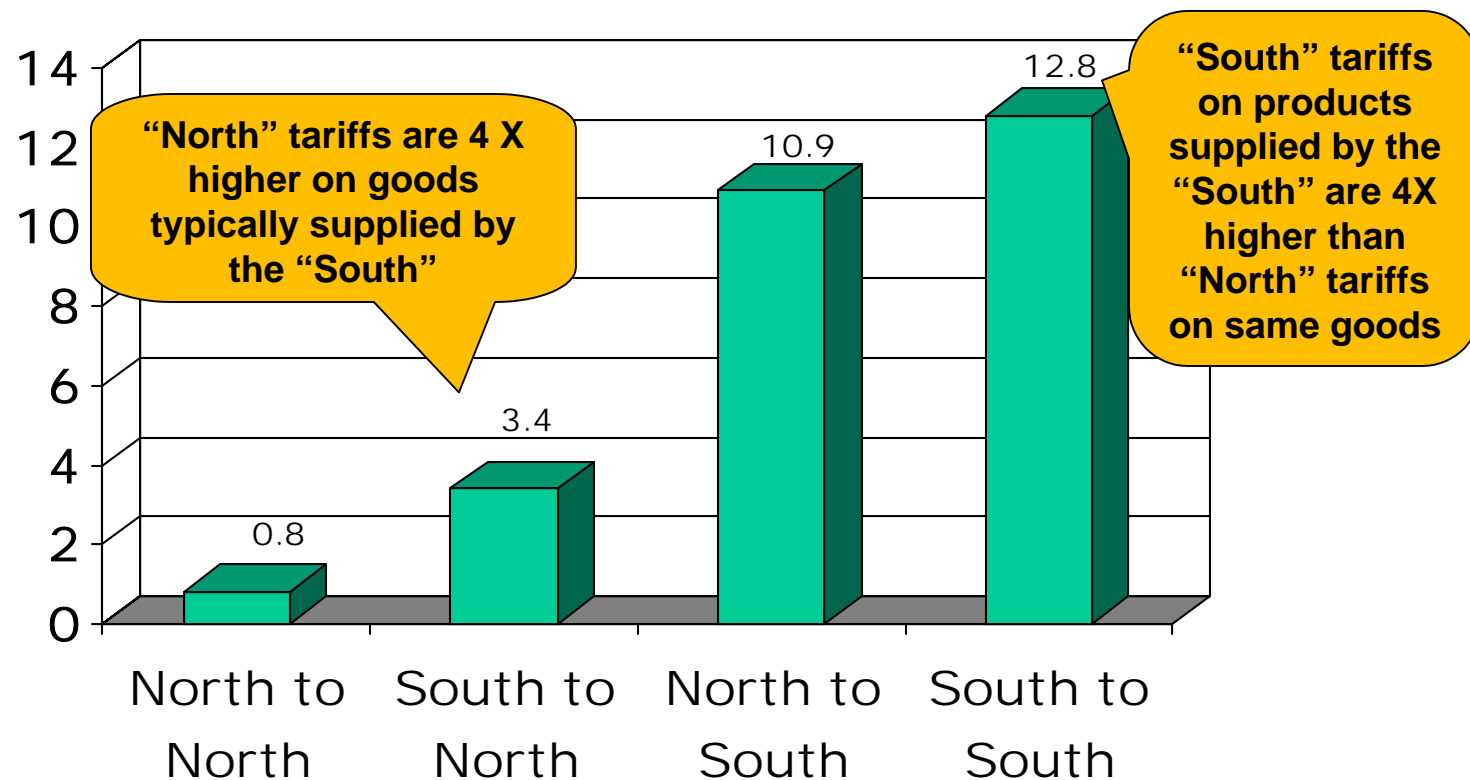


Source: World Bank, Global Economic Prospects and the Developing Countries, 2002



Tariffs on DC products are highest in other DCs

Percent

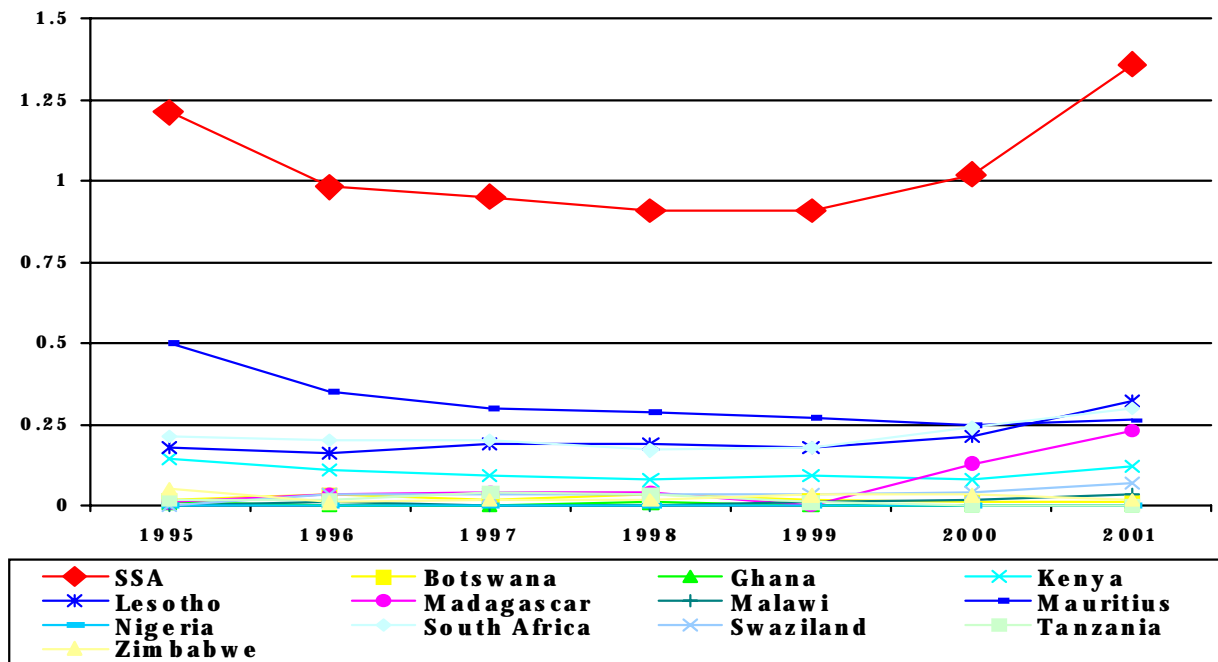


Source: World Bank, Global Economic Prospects, 2002

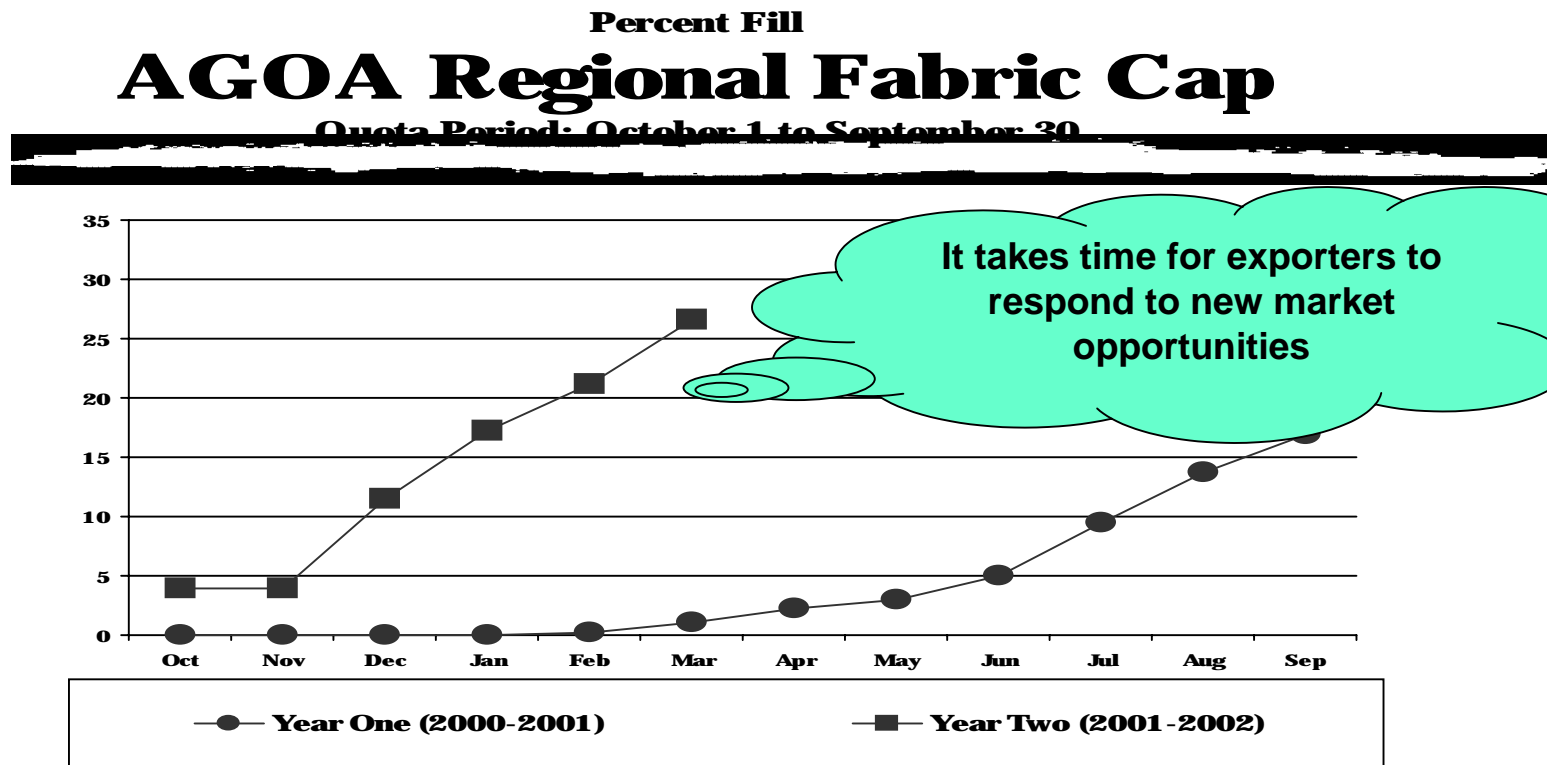


AGOA Example—Market access helps...

Percent Share of Total U.S. Imports
Apparel from Sub Sahara Africa



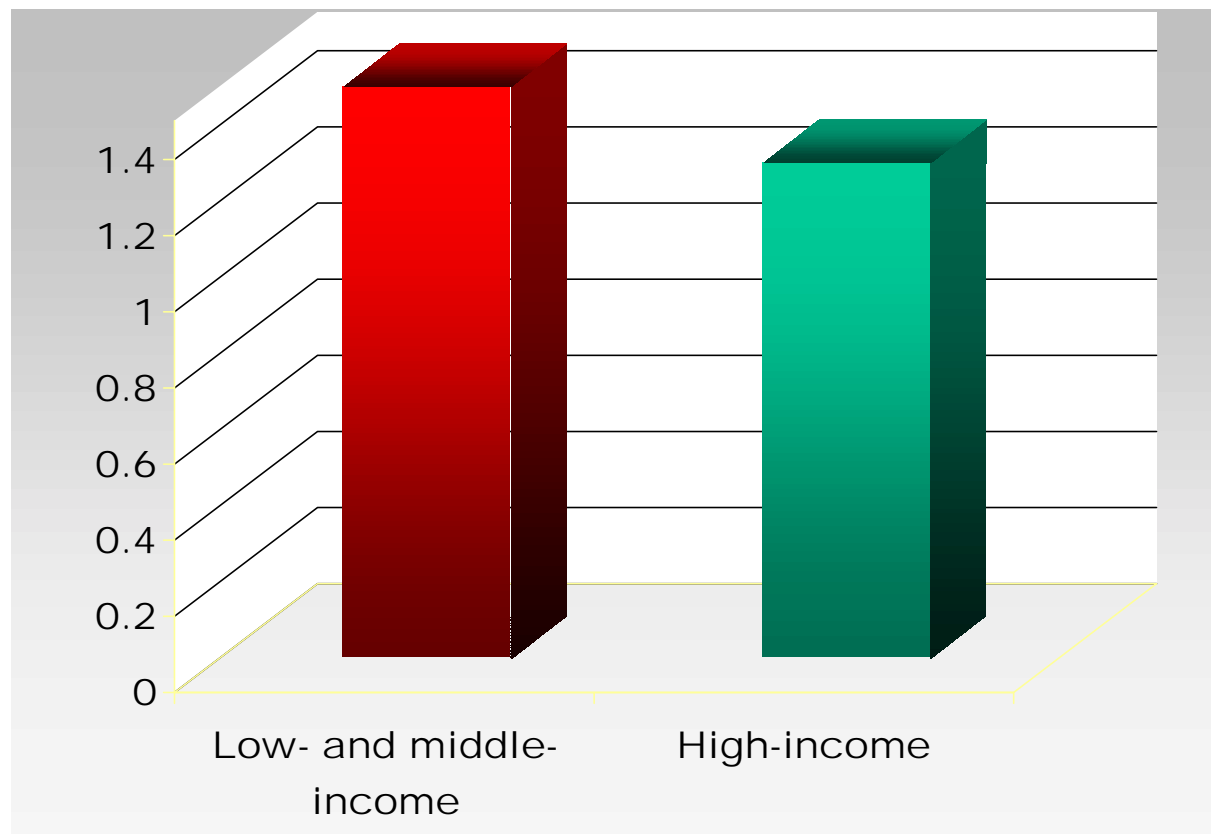
... But market access is not enough



Trade liberalization would accelerate growth

(Cumulative additional (discounted) income in 10 years following liberalization)

\$ trillion

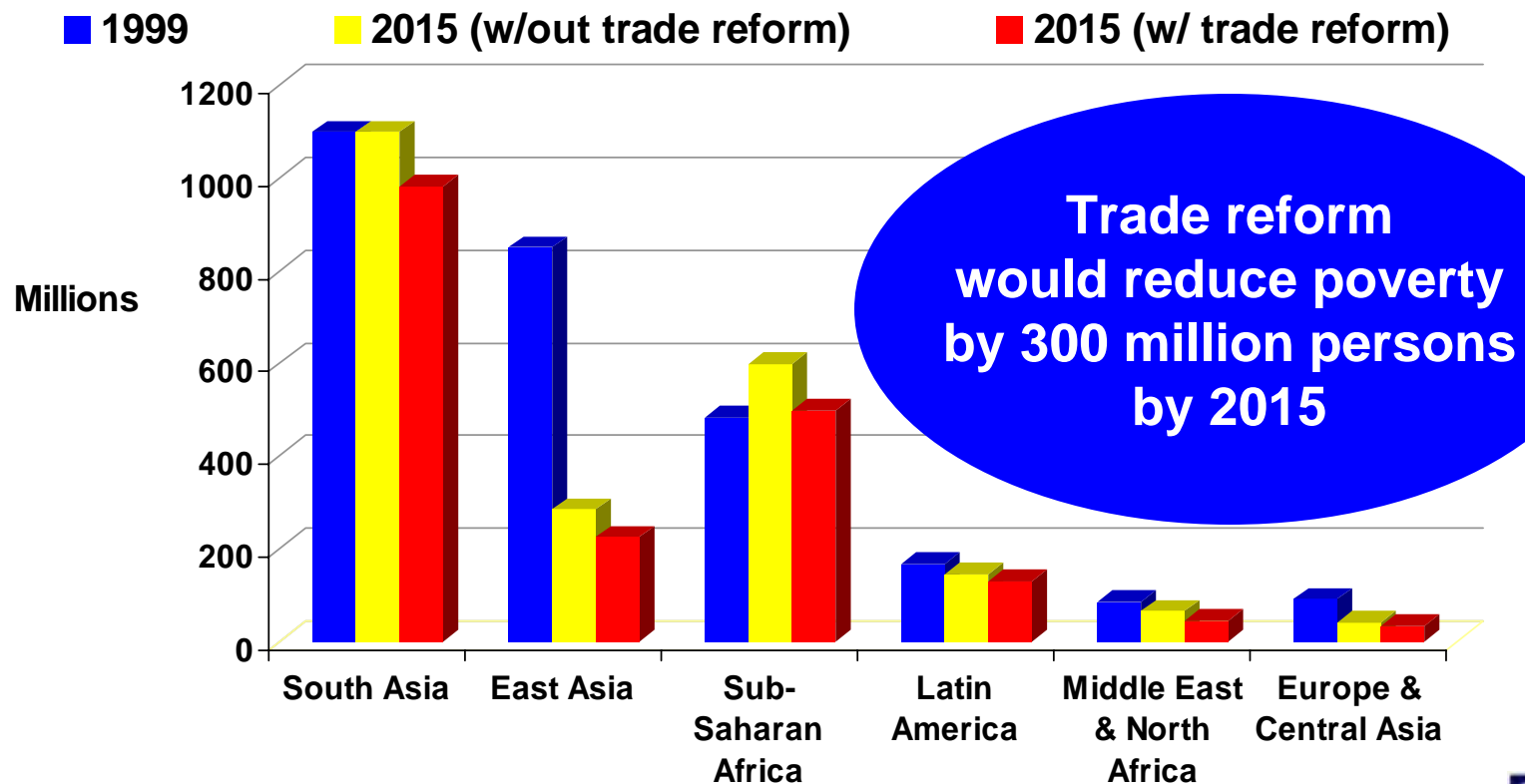


Source: GEP 2002, World Bank



Implying substantial poverty reduction

(Number of persons living on less than \$2 per day)



Source: World Bank, GEP 2002,



DC producers are often unable to respond effectively to trade opportunities

Impediments vary, but commonly include...

- Lack of market information
- Inability to meet foreign market requirements (e.g., Rules of Origin, standards, labeling)
- High production/transportation costs

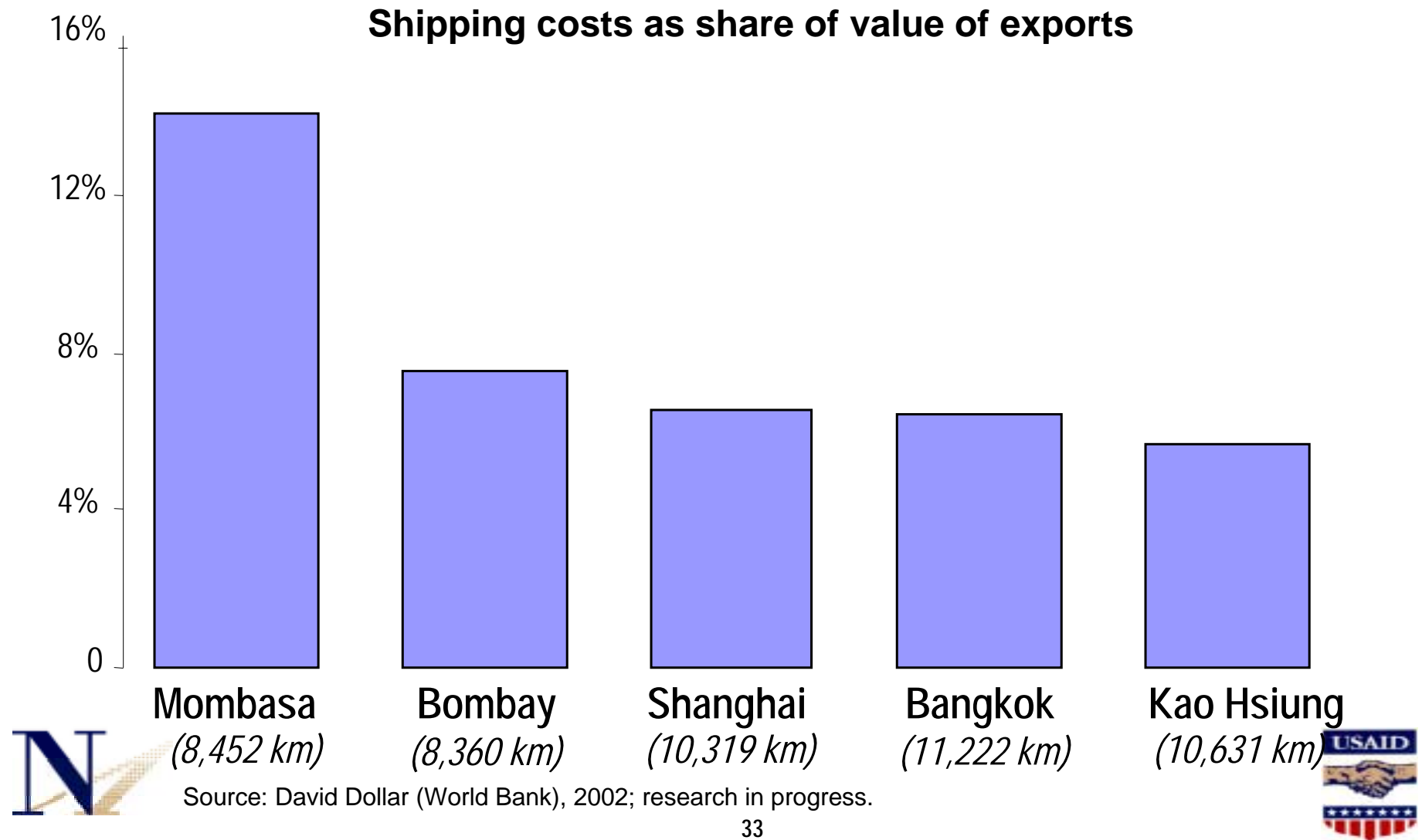


Components of high production costs

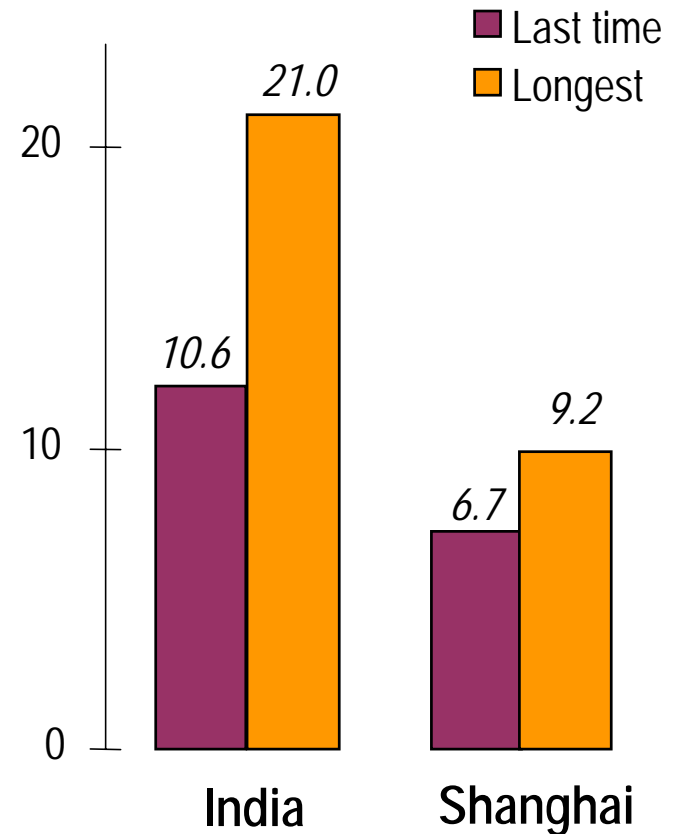
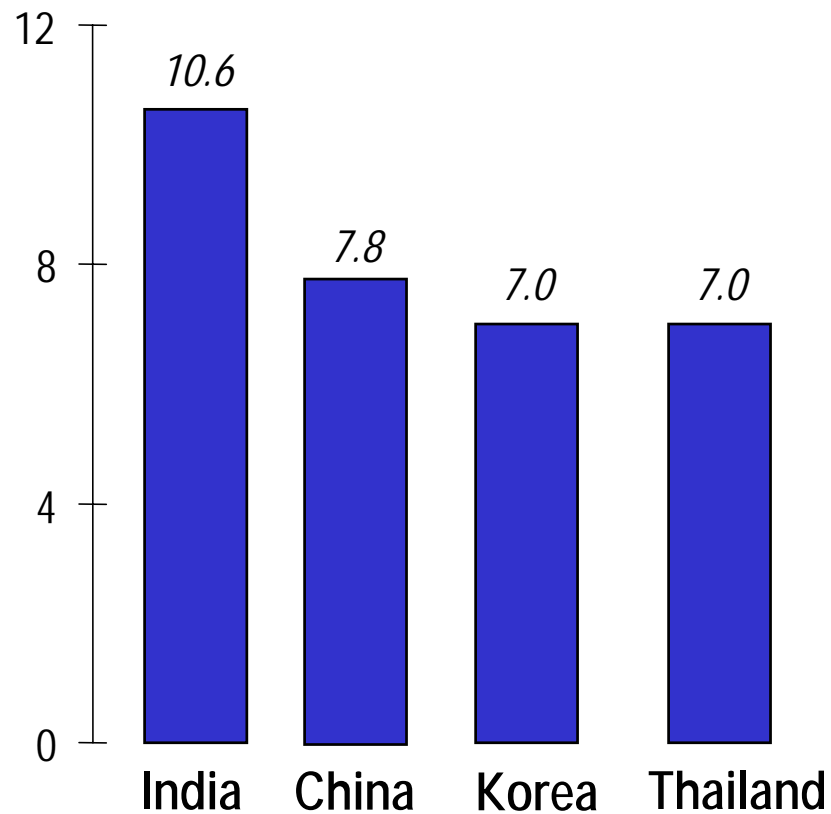
- Costly input prices/high duties on imports
- Land, labor, financial market rigidities
- Burdensome transactions costs
 - Transportation bottlenecks
 - Customs processing delays
 - Regulatory burden/bureaucratic inefficiency
 - Corruption



Maritime transport to the U.S. East Coast—Textiles



Days to clear imported inputs through customs

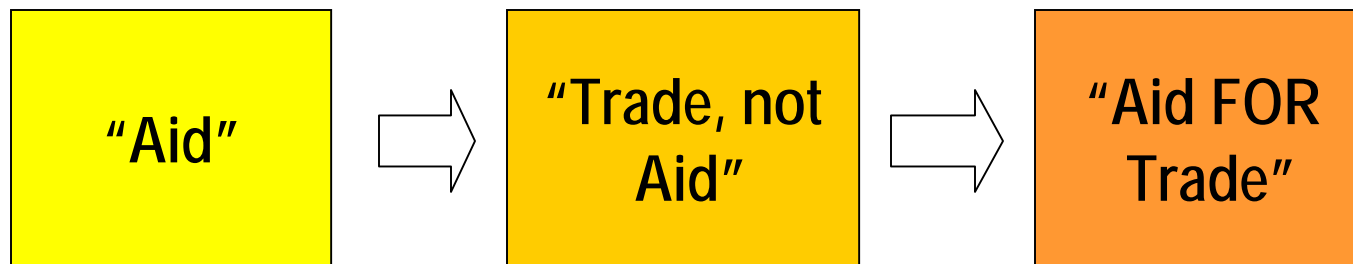


Source: David Dollar (World Bank), research in progress, 2002



How Can USAID Help?

The Evolution in Development Approaches:



Solutions

1. Address external (market access) issues

- WTO
- Regional agreements
- Preferential trade agreements
- Bilateral trade issues

USAID assistance to:

- *Understand* these agreements,
- *Participate* in ongoing negotiations, and
- *Implement* commitments made

2. Address internal (supply response) issues

USAID assistance to:

- Develop market-responsive globally active businesses
- Enhance enabling environment: public sector institutions, laws, and infrastructure

3. Address the links between external and internal issues

USAID assistance to:

- Improve Customs processing
- Understand and comply with foreign market requirements (RoO, SPS, TBT)



Agenda

- The Convergence of Trade and Development
- Trade Trends and Development Issues
- **The Comparative Advantage Game (David Cowles)**
- The WTO and the Doha Development Agenda
- Implications and Opportunities for USAID



Agenda

- The Convergence of Trade and Development
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(Geza Feketekuty)**
- Implications and Opportunities for USAID



WTO—Trade negotiations

- Increasingly focus on issues key for development
 - “Behind-the-Border Issues”
 - Rule of Law (commercial, legal & economic)
 - Transparency and Good Governance
 - Liberalization of labor-intensive sectors (agriculture and services)



WTO—Key principles for regulating trade

- Key principles for regulating trade are identical to principles underlying development assistance
 - Transparency
 - Non-discrimination (national treatment & MFN)
 - Objectivity
 - Predictability
 - Due process



WTO—Developing and developed countries and trade

- Developing countries

- Recognize importance of trade to their economic growth and
- Seek assistance to improve their access to foreign markets and to improve their ability to take advantage of market opportunities



**Developing and developed
countries alike
see TCB as critical**

- Developed countries

- Recognize the growing importance of developing countries to global trade and to the operation of the trading system and
- Seek to strengthen capacity of developing countries to implement trade rules and reform/ liberalization commitments



WTO—Negotiations expanding the agenda

Ten negotiations have progressively expanded the agenda

Year	Place/name	Subjects covered	Countries
1947	Geneva	Tariff	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960-1961	Dillon Round	Tariffs	26
1964-1967	Kennedy Round	Tariffs, NTBs, anti-dumping	62
1973-1979	Tokyo Round	Tariffs, NTBs, subsidies, standards, government procurement	102
1986-1994	Uruguay Round	Tariffs, dispute settlement, rules, services, intellectual property, textiles, agriculture, trims	123
2001-2005	Doha Development Agenda	Tariffs, NTBs, services, agriculture, intellectual property, procurement, investment, competition policy, environment	144

1947

11

Developing Countries

2002

110

Developing Countries of which 30 are LDCs



WTO—Developing country challenges

- Participation/Consensus-building
- Implementing Commitments
- Accession
- Dispute Settlement

“Single undertaking”



```
graph LR; A["Single undertaking"] --> B[Implementing Commitments]; A --> C[Accession];
```



WTO—Seattle failure

Seattle failed because of conflict in four areas:

1. Implementation of past commitments/differing perceptions over balance of benefits
2. Participation of developing countries in decision making
3. Participation of civil society
4. Content of the negotiating agenda



Doha Development Agenda

The Doha Ministerial Declaration, Nov. 2001

- Negotiations in specified areas
- Preparations for negotiations after next WTO Ministerial (Cancun, Sept. '03) on other topics
- Analysis of issues on which no commitment to negotiate has been made
- Help for developing countries in technical assistance and market access



Doha—Negotiation topics

- Agriculture
 - Cuts in tariffs, export subsidies, domestic support programs
- Services
 - Reduction/reform of regulatory barriers, rules for domestic regulation
- Dispute settlement
 - Tighter rules on retaliation
- Industrial tariffs
 - Further cuts, including tariff peaks blocking developing country products
- Intellectual property
 - Rules for drugs in emergencies and protection of geographic indicators



Doha—Negotiation topics for Phase 2 (Sept. 2003)

- Trade Rules
 - Subsidies
 - Countervailing duties
 - Dumping, antidumping duties
- Investment
 - Transparency
 - Non-discrimination
 - Modalities for commitments based on a positive list approach
 - Dispute settlement
- Competition policy
 - Capacity building
 - Core principles, including transparency, non-discrimination and procedural fairness
 - Provisions on hard core cartels
- Transparency in government procurement
- “Trade facilitation”
 - Customs clearance & documentation, etc.



Doha—Topics for further analysis

- Ministers agreed WTO work program should examine the relationship between trade and
 - E-commerce
 - Small economies
 - Trade, debt, and finance
 - Trade and technology transfer



Doha—Provisions on additional resources and assistance for developing countries

- Commitment to eliminate tariffs on imports from least-developed countries
- Commitment to expanding technical cooperation and capacity building
- Analysis of problems faced by small economies
- Review of “Special & Differential “ (S&D) provisions

S & D Treatment

- Priority in tariff reductions on products of DCs and LDCs
- Longer transition times
- Flexibility in implementing WTO commitments
- Exemptions from specific obligations
- Technical Assistance



Doha—A Tight Timetable

- End of 2002 review of TCB assistance by WTO and its members
- Review of progress, launch of second-phase negotiations at Fifth Ministerial, September 2003
- Conclusion of negotiations by January 1, 2005

**PLUS simultaneous negotiations of
Regional Trade Agreements
Bilateral Trade Agreements
Preferential Trade Agreements/Arrangements**



Agenda

- The Convergence of Trade and Development
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- **Implications for and Opportunities for USAID**
(Steve Hadley)



Implications for USAID

An Extraordinary 3-year Window:

- Doha, FTAA, AGOA, CBI, etc.
- Political premium on tangible results
- Coincides with textile/garment “crisis”



Implications for USAID

But trade is here for the long-term

- Market access will increase DC growth
- World trade rules now go “behind the border”



Implications for USAID

What is success?

- Diverse products and markets
- Higher value added
- Climbing the ladder

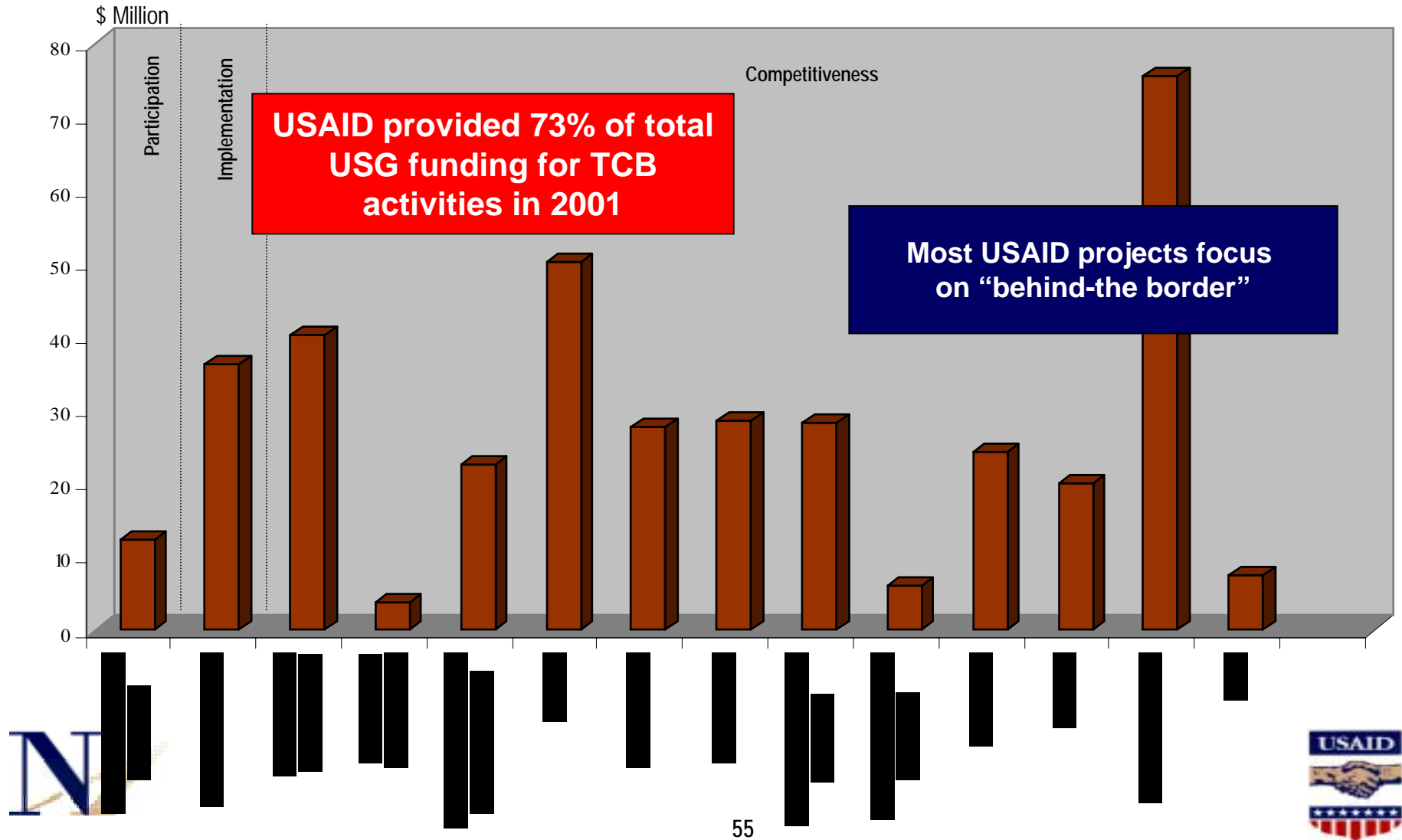
Trade Capacity Building is Needed



Implications for USAID:

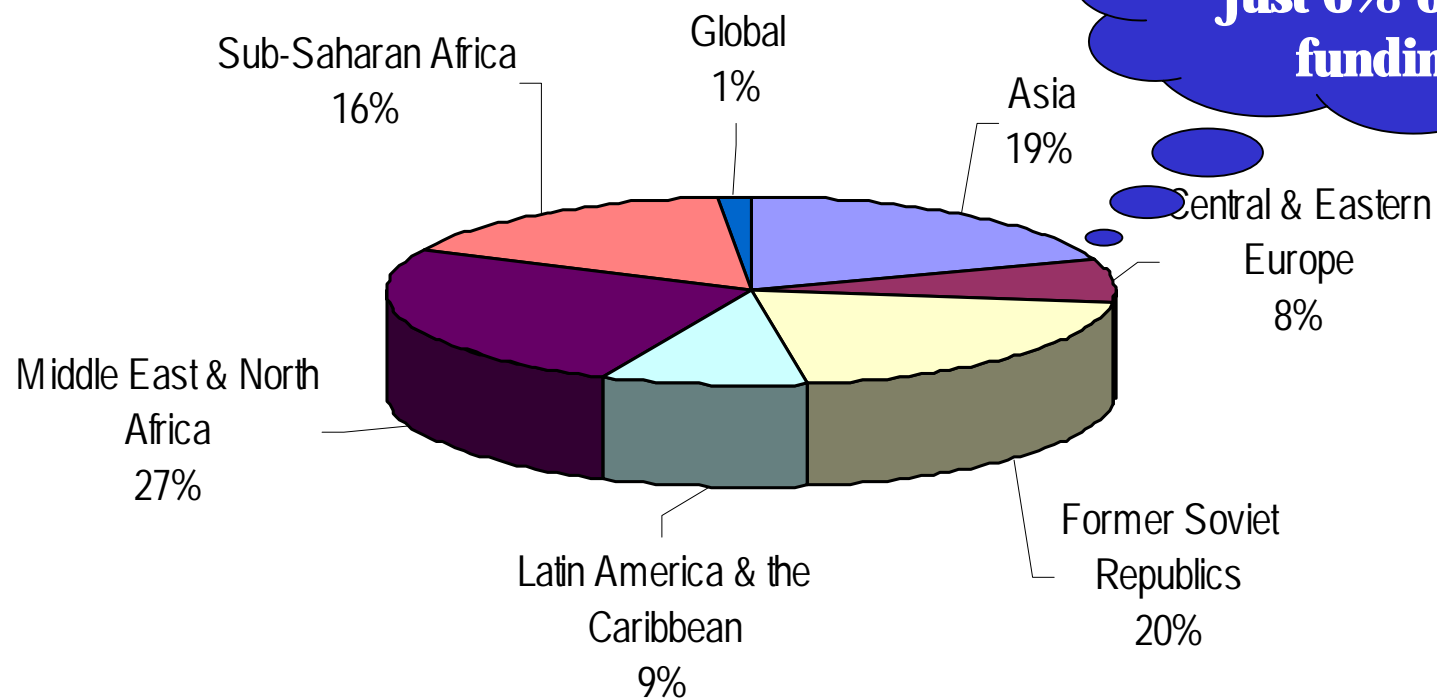
USAID TCB Activities

Funded in 2001 Total: \$384 million (\$424 million)



Implications for USAID

- USAID's TCB by Region (2001)



**LDCs received
just 6% of the
funding**



Source: USAID TCB Survey, 2001



Implications for USAID

Some immediate implications:

- Trade and investment in country strategies?
- Skills in trade negotiation support?
- Legislative constraints?
- Discretionary EG Funding?



Opportunities for USAID

Resources are available

- The Integrated Framework (IF)
- Trade Policy Reviews
- Staff Training
- TradeMap



Opportunities for USAID

Resources are available (continued)

- Supporting USAID Projects
 - Fiscal Reform
 - Services
 - Sanitary and Phytosanitary (SPS)
 - Commercial Law
 - Customs?
 - Regional Initiatives

